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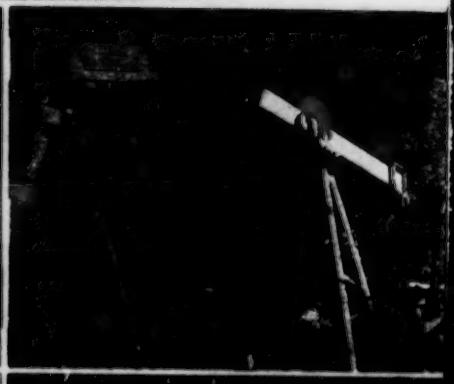
NUAL REPORT



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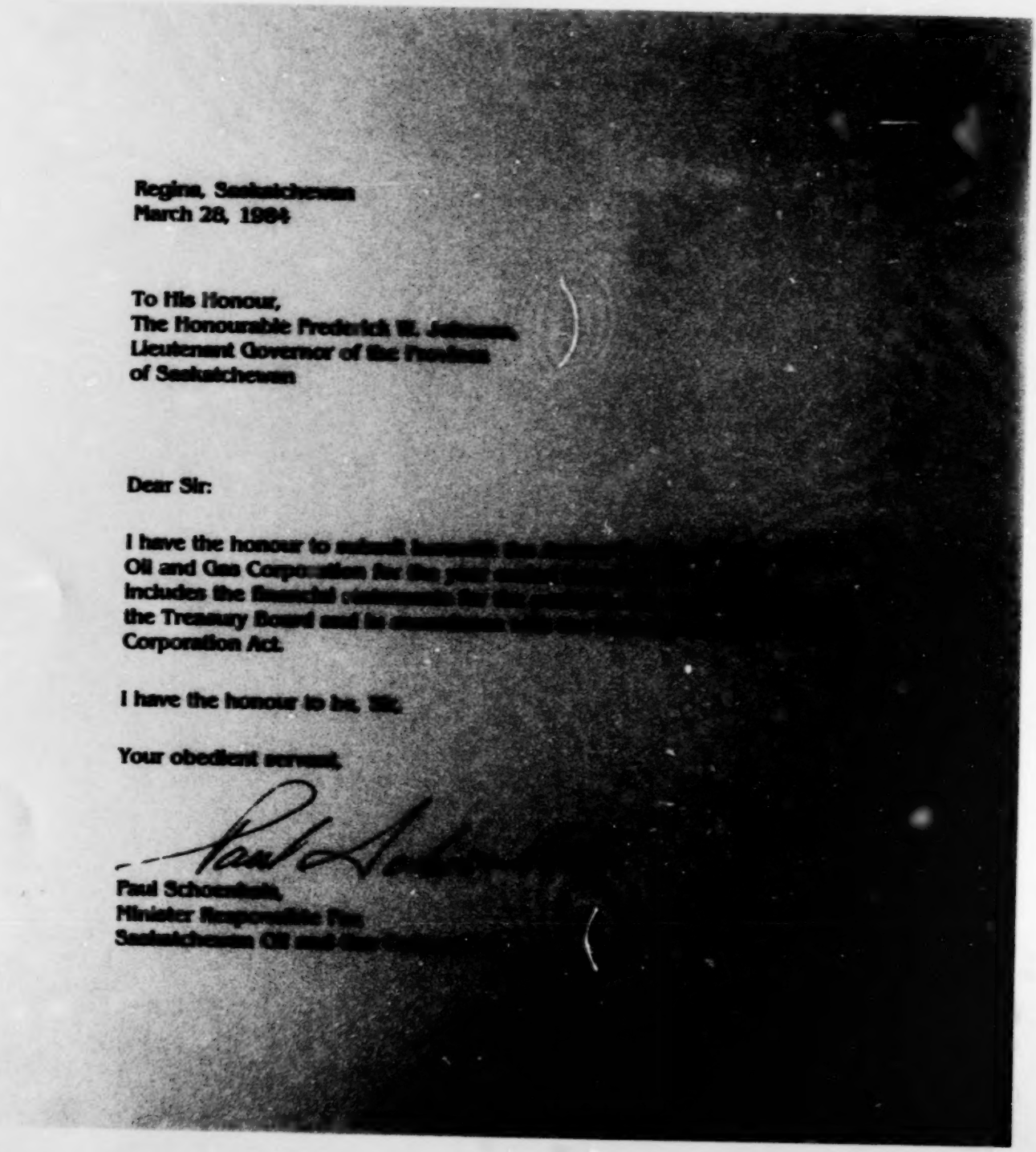
Letter of Transmittal



Regina, Saskatchewan
March 28, 1984

To His Honour,
The Honourable Frederick W. Johnson,
Lieutenant Governor of the Province
of Saskatchewan

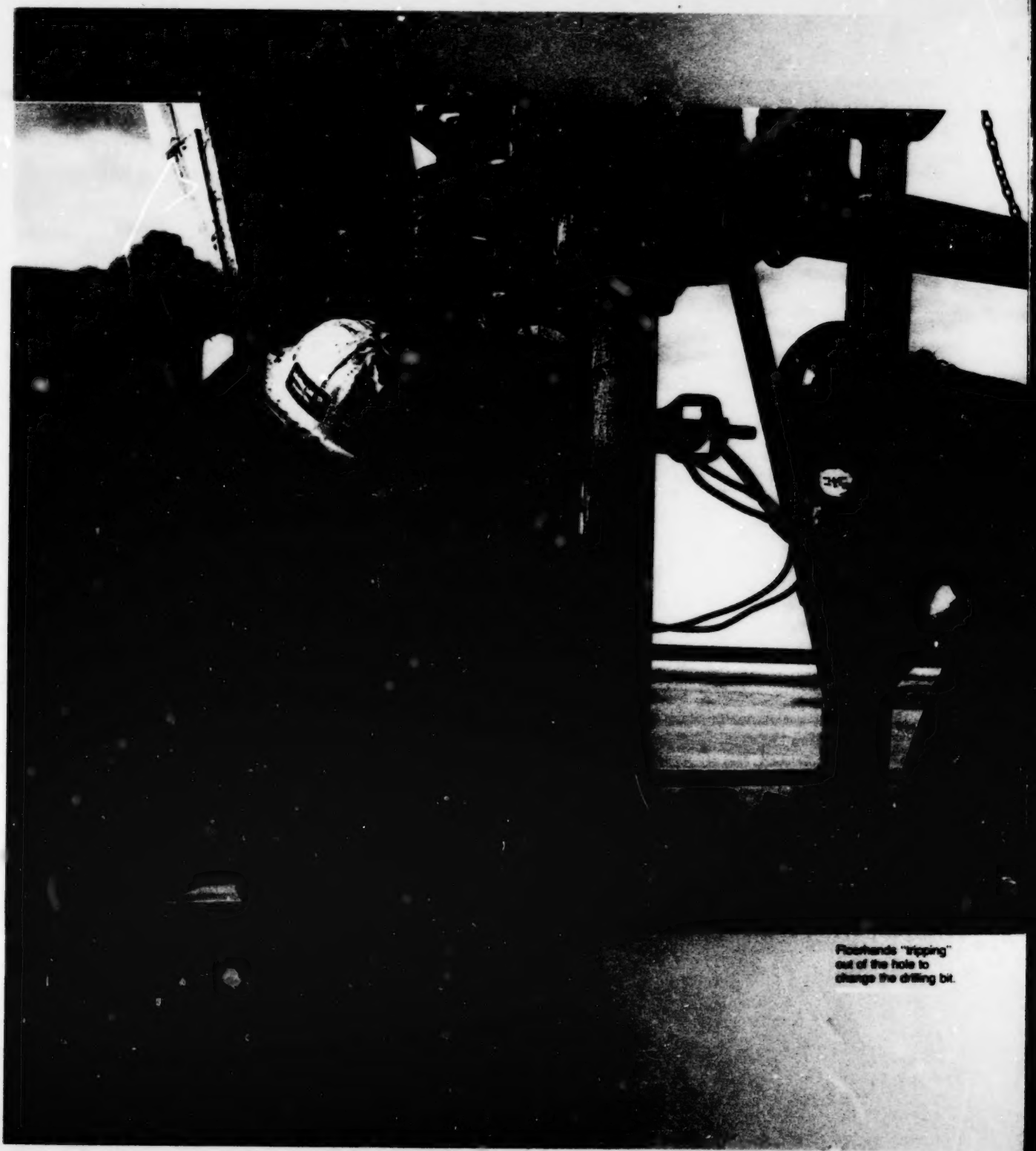
Dear Sir:

I have the honour to submit herewith the Annual Report of the Saskatchewan
Oil and Gas Corporation for the year ended December 31, 1983. This report
includes the financial statements for the year, which have been approved by
the Treasury Board and its examination has been made pursuant to the Crown
Corporation Act.

I have the honour to be, Sir,

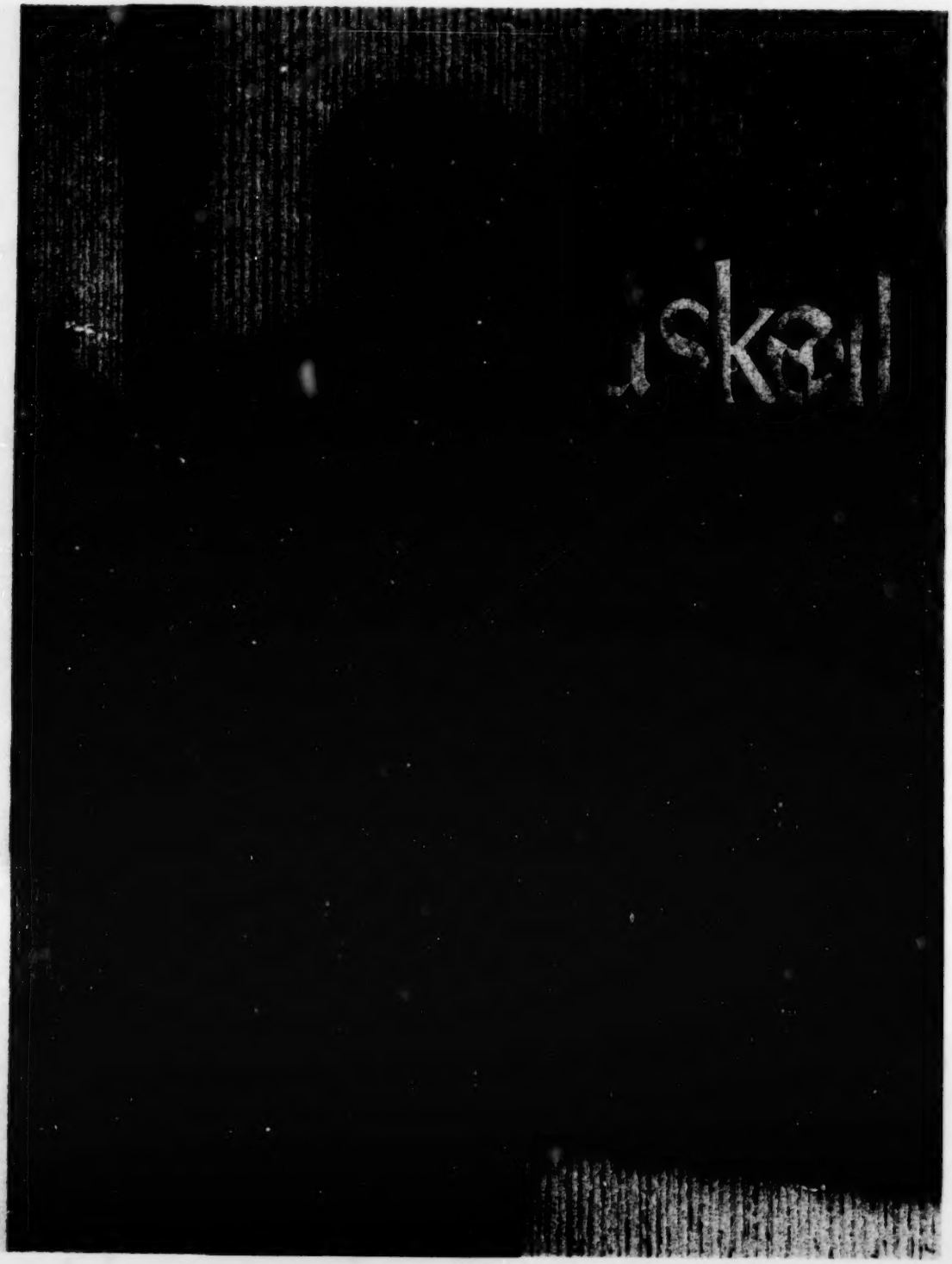
Your obedient servant,

Paul Schoenhals,
Minister Responsible For
Saskatchewan Oil and Gas Corporation



Floorhands "tripping" out of the hole to change the drilling bit.

Chairman's Report



Herb C. Pinder Jr.,
Chairman,
Board of Directors,
Saskatchewan Oil and
Gas Corporation.

s the following pages of this Annual Report will detail, 1983 was a memorable year for Saskoil. As its third and newest Chairman in 1983, following Premier Grant Devine and Minister of Energy, Paul Schoenhals, I have the opportunity of reviewing some of the highlights.

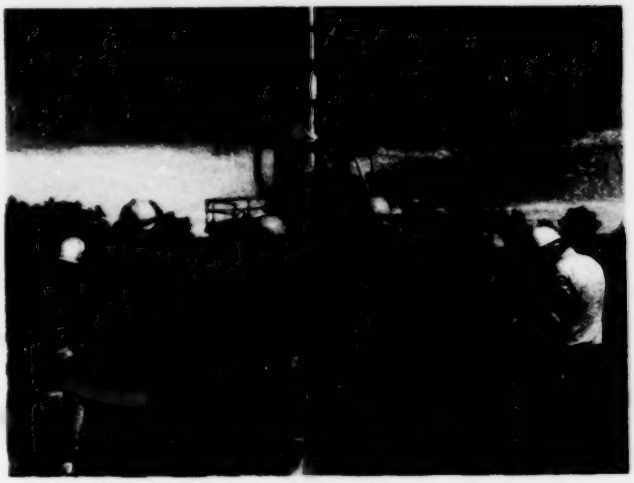
Consistent with the new mandate of all of the resource companies in the Crown sector, the emphasis has been on profit and generating an improved return on investment for the shareholder. The Board of Directors, the Management, and the Staff have taken to this mandate in a determined and businesslike manner. In fact, Saskoil's record profit has led the turnaround in the Crown sector, enabling it to pay a record dividend. There are many reasons why this dramatic improvement in performance took place and they include the following:

— Stronger markets, an amendment to the federal-provincial energy agreement and, in particular, innovative changes to the royalty structure in the province have provided a much better environment in which to operate.

— Throughout 1983 and prior, there has been strong direction from the Ministers responsible for Saskoil.

— The Board of Directors is competent and is committed to the mandate and the well-being of the Corporation.

— Under the leadership of William J. Douglas, the Corporation has reorganized along lines of a traditional oil company, in part contributing to the major cost reductions achieved in 1983. During the year, Mr. Douglas was named by the Board of Directors as the President of Saskoil.



The Board of Directors touring field operations and drilling site.

With Saskoil's strong land position, a positive industry environment, and the people to make it happen, the Corporation looks to 1984 as another exciting year. It will endeavor to balance the application of funds between providing a return to the shareholder and reinvesting to maintain adequate reserves upon which future cashflows depend. The intention remains to manage the assets of the Corporation prudently and profitably. The opportunity of Saskatchewan people to participate more directly in the Corporation would be welcome.

Herb C. Pinder Jr.
Chairman, Board of Directors,
Saskatchewan Oil and Gas Corporation

President's Report

William J. Douglas, President, Saskatchewan Oil and Gas Corporation.

Saskoil's tenth year of operation was highlighted by record production and earnings. Our performance has clearly demonstrated the ability to prosper while living within cashflow.

Throughout the year, markets for our crudes were strong. Sales totalled 748 thousand cubic metres of light, medium and heavy oil, an increase of 18 percent from the previous year. These sales volumes, lower royalty rates and relatively stable prices combined to increase funds from operations to $43.9 million, 80 percent higher than 1982 levels. Most notably, after-tax earnings rose to $30.9 million, exceeding the combined earnings of all previous years.

The external environment had a positive influence on revenues generated in 1983. Demand for our crudes was supported by asphalt requirements resulting from major paving programs undertaken in the United States. Continued availability of long-term export permits added to market stability. These factors are of particular importance to Saskoil because of the high proportion of our production which is exported. Also, the August, 1983 amendment to the federal-provincial energy agreement granted the world price to oil discovered after March, 1974. Approximately 60 percent of the Corporation's production received the world price in 1983, compared to the Saskatchewan industry average of 40 percent. An extension of the eligibility period for the Saskatchewan royalty holiday and reductions in Crown royalty rates further aided cashflow. In 1983, six percent of the Corporation's oil production qualified for the royalty holiday.

Saskoil's capital program was funded wholly by internally generated cashflow. Total capital expenditures in 1983 were $30.1 million, approximately the same as in 1982. These expenditures were divided equally among exploration, development and production activities. The thrust of the capital program was twofold: to accelerate earnings from our established resource base and to invest in new opportunities. Activity continued to be focused in Saskatchewan.

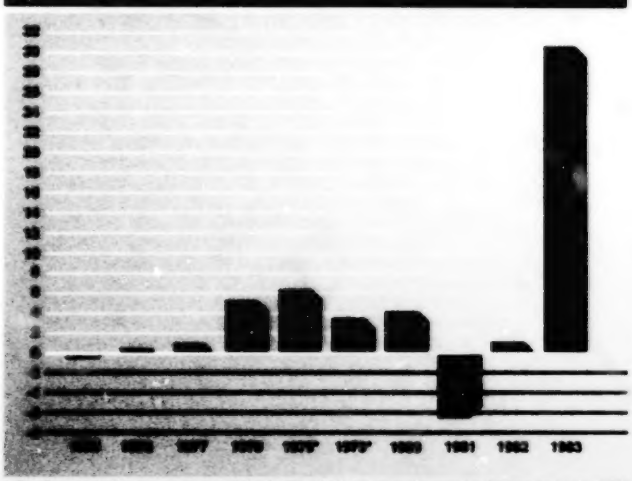
Saskoil has acquired extensive land holdings in Saskatchewan over the past several years. Strong competition at provincial land sales in 1983 significantly increased the cost of obtaining new lands. The objective of the 1983 exploration capital program was to fully exploit existing land holdings with only selective purchases of new lands. Our strategy was to take greater advantage of joint venture opportunities in order to test expiring lands and reduce risk. This strategy proved to be successful; approximately $9 million were spent on Saskoil lands through farmout arrangements. In addition Saskoil's direct exploration expenditures amounted to $9.7 million. Saskoil participated in the drilling of 89 gross exploration wells in 1983, an increase of 80 percent from 1982. The majority of these activities was concentrated in the light and heavy oil regions of Saskatchewan.

Development and production expenditures were $19.6 million in 1983. Saskoil participated in 138 development oil wells, with an additional 26 wells drilled as a result of farmout agreements. Gross development drilling increased 45 percent from 1982 levels.

The focus of the development program was on heavy oil pools; $10.4 million were spent for this purpose. Eighty percent of this expenditure was for the development of four Saskatchewan heavy oil fields: Senlac, Court, Neilburg and Luseland. Sixty-one gross oil wells were drilled in these fields.

Development drilling and completion activities related to light and medium oil accounted for $4.5 million. The majority of this expenditure was directed toward the southwest portion of Saskatchewan. In west central Saskatchewan, Saskoil and a joint venture partner were involved in a 30 well Viking light oil project at Plato and Dodsland.

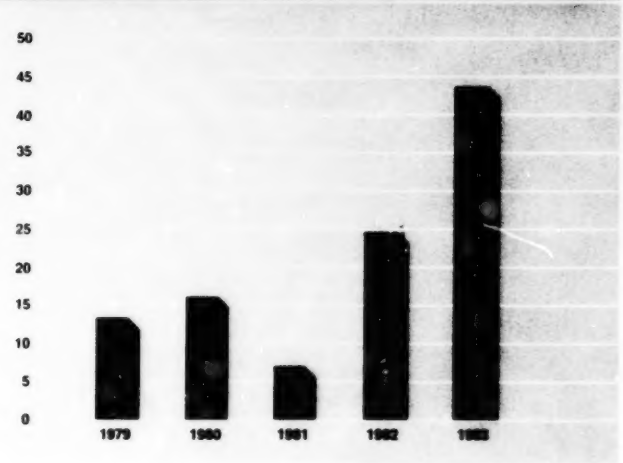
Earnings *(millions of dollars)*



* *The Corporation's year end was originally March 31, but was changed to December 31 in 1979; amounts represent 12 months in both cases.*

President's Report

Funds From Operations *(millions of dollars)*



Capital expenditures provided the basis for future earnings through the discovery and subsequent development of oil reserves. Reserve additions from drilling in 1983 replaced approximately 90 percent of production, a proportion significantly higher than the industry average of recent years. Also in 1983 a comprehensive review of Saskoil's reserves was made by an independent engineering firm. As a result, the Corporation's proven developed reserves increased by 1.5 million cubic metres (9.4 million barrels). These combined factors placed the Corporation's year end proven developed reserves at 9.2 million cubic metres (57.9 million barrels).

Saskoil's operating performance is reflected in the financial statements. In 1983, gross revenue, funds from operations and net earnings were all at record levels. Increases in per unit operating costs were held below the rate of inflation while administrative expenses were reduced by 19 percent. Saskoil also reduced its long-term debt by $10 million in 1983, bringing the total down to $25 million. Return on average capital employed in 1983 was 20 percent.

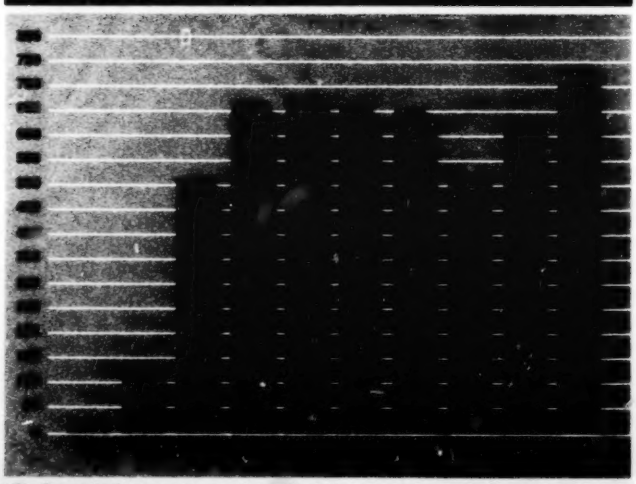
The short-term outlook is encouraging. Saskoil is well positioned to benefit from the favorable industry climate in Saskatchewan. In 1984, we will continue to pursue the profitable utilization of our current land base while making judicious new land purchases. Our activity will be balanced between exploration and resource development. Efforts to maximize recovery from existing pools will continue with the undertaking of infill drilling programs and enhanced oil recovery feasibility studies.

The long-term prospects for both Saskoil and the industry in Saskatchewan are also bright. However, to fulfill this potential, certain issues must be addressed. For example, the technology and economics of enhanced oil recovery must be better demonstrated in Saskatchewan to take advantage of the immense heavy oil reserves. Existence of upgrading facilities in the province would diversify the markets for medium and heavy oils and permit Saskatchewan to consume a portion of its own crude oil production. Likewise, opportunities for natural gas development are required to adequately measure the underlying resource base.

We are proud of the results attained during 1983. Faced with significant challenges at the start of the year, employees demonstrated a strong commitment to improving Saskoil's position. With this determination, we can be confident of our continuing ability to succeed in the years ahead.

William J. Douglas
President,
Saskatchewan Oil and Gas Corporation

Oil Production *(000m³)*



* *The Corporation's year end was originally March 31, but was changed to December 31 in 1979; amounts represent 12 months in both cases.*

Seismic "Air Gun" trucks near Court, Saskatchewan.

"Amidst increasingly competitive conditions, Saskoil was able to acquire key parcels of land for its 1983 and future exploration programs."

D. L. TOUGH
Vice-President, Exploration

The Corporation's exploration expenditures were concentrated on the acquisition of land and geophysical data to strengthen existing plays as well as to obtain entry into several new prospects. During 1983, Saskoil's exploration capital expenditures amounted to $9.7 million.

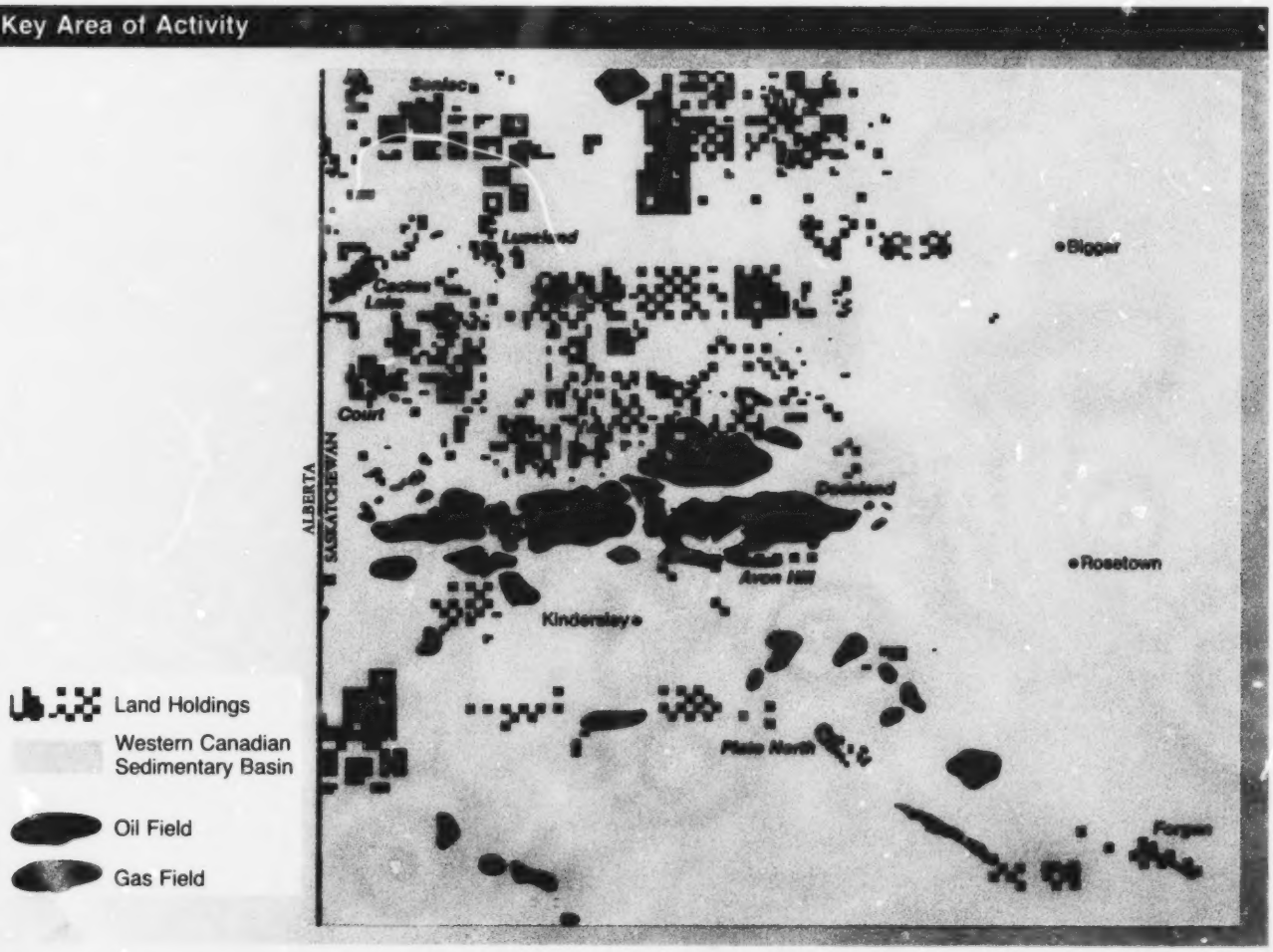
The Corporation's extensive land base, coupled with the new investment climate in Saskatchewan, provided the means to complement Saskoil's own capital expenditures through farmouts. A total of 38 farmout agreements were signed during the year, involving evaluation of 215 thousand hectares of Saskoil's mineral lands. It is estimated that joint venture partners spent $9 million on Saskoil land.

The Corporation participated in the drilling of 89 exploratory wells, 69 through farmouts at no capital cost to Saskoil. This resulted in 37 oil, 17 gas, and 35 dry and abandoned wells. Oil and gas land holdings at year end were 697 thousand hectares, a decrease of 17.5 percent from year end 1982.

Heavy Oil

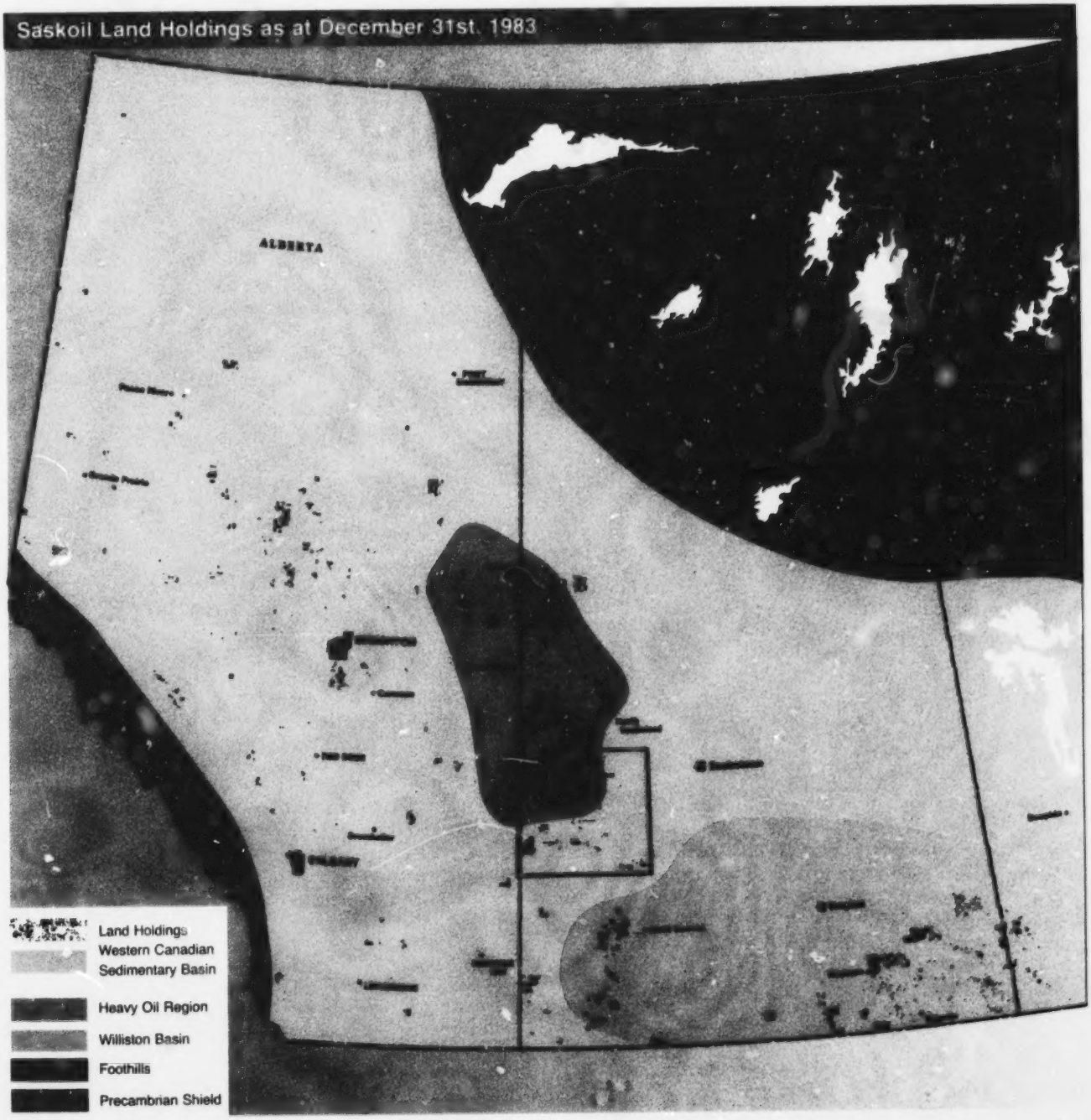
In the heavy oil regions of northwest and west central Saskatchewan, Saskoil had interests in 28 exploratory wells, yielding nine successful heavy oil wells. Eighty percent of Saskoil's expenditures on heavy oil exploration was to further delineate previous discoveries at Senlac, Court and Marsden.

Key Area of Activity



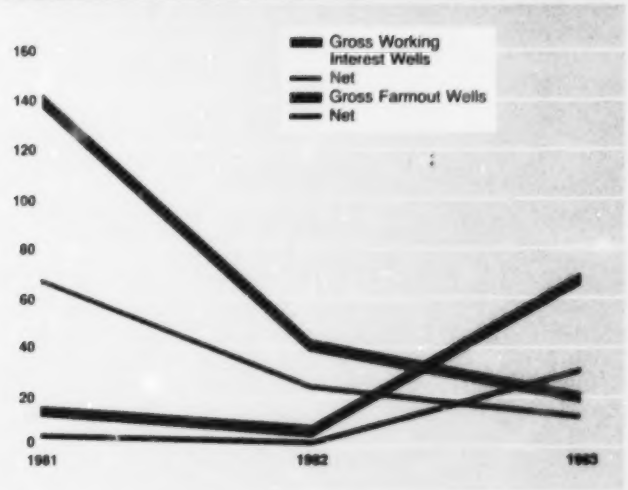
Senlac Saskoil and its partner, North Canadian Oils, focused on acquisition of land and geophysical data in the Senlac area during 1983. The Corporation has from 50 percent to 100 percent working interest in 1302 hectares.

Court The low oil viscosity and high production rates of previous wells drilled in the area made Court a prime prospect for further delineation. Drilling on the



Exploration

Exploratory Drilling *(number of wells)*



eastern edge of the 1981 Court Middle Bakken discovery produced three cased oil wells. In partnership with Canadian Reserve Oil and Gas, Saskoil has from 34 percent to 100 percent working interest in 3302 hectares, including 1004 hectares added in 1983.

Marsden Joint venture activities resulted in the drilling of three wells, two of which were cased for heavy oil. Saskoil has a working interest ranging from 25 percent to 100 percent in 5722 hectares, including 777 hectares added in 1983. Marsden is located 47 kilometres north of Senlac.

Farmout activities at Artland, Neilburg and Major resulted in the evaluation of 35 thousand hectares of Saskoil's land and the discovery of oil in three of the locations drilled. Saskoil has an override royalty interest ranging from five percent to 15 percent on these wells, with the option to convert to a working interest upon payout of well costs.

Light Oil

The combination of strong markets and the royalty-free period made Saskatchewan an attractive area for light oil exploration in 1983. The Corporation participated in the drilling of 41 exploratory wells, resulting in 28 cased light oil wells. During the year, Saskoil's most notable exploration successes were in the Viking light oil play in west central Saskatchewan.

Avon Hills Through three farmout agreements, 1813 hectares were evaluated with 10 exploratory wells being drilled, all of which were cased for Viking oil. Following this discovery, eight successful development wells were completed in which Saskoil has a 50 percent working interest.

North Buffalo Coulee Six exploratory farmout wells were drilled and cased on the North Buffalo Coulee prospect. These wells followed the evaluation of 1943 hectares of Saskoil land. Further delineation drilling is planned for 1984. North Buffalo Coulee is located 25 kilometres northwest of Avon Hills.

Forgan Saskoil and its partner, Precambrian Shield Resources Ltd., drilled five Viking oil test wells, four of which encountered oil. During the year, Saskoil purchased 925 hectares of additional land in the Forgan area. The Corporation has working interests ranging from 41 percent to 100 percent in 2483 hectares, including the parcels added in 1983.

In southeast Saskatchewan and southwest Manitoba, the Corporation and its partners drilled six wells, yielding three wells cased for light oil. Saskoil continued its interest in deep exploration in southeast Saskatchewan through the granting of seismic options. The option holder may earn an interest in Saskoil's mineral lands by drilling in 1984.

In Alberta, Saskoil had a 50 percent working interest in an exploratory test at the Saddle Hills prospect in the Grande Prairie Region. This test successfully encountered light oil from the Doe Creek formation and natural gas from the Cadomin and Blue Sky formations. This discovery was subsequently followed by the drilling of two successful development oil wells.

Gas

In 1983, 10 of 11 farmout wells drilled resulted in discovery of gas reserves in the Beacon Hill area of northwest Saskatchewan. The Corporation retains an override royalty interest in these wells.

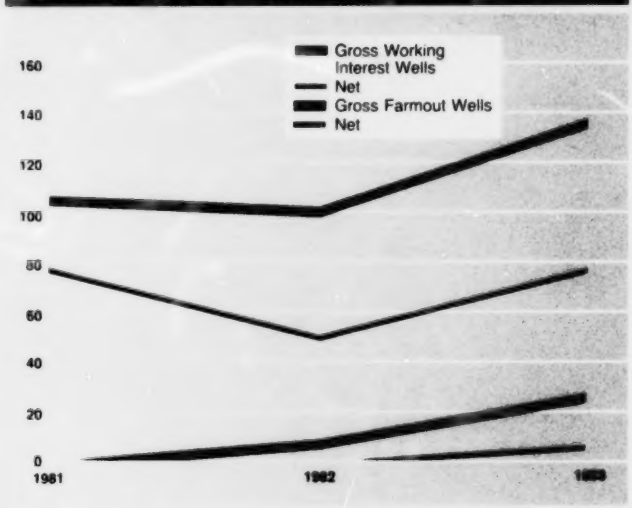
Saskoil crude oil treatment facility at Neilburg, Saskatchewan.

"The combination of favourable market conditions, efficient operations and sound investments all contributed to our tremendous success in 1983."

D. M. CHRISTENSEN
Vice-President, Resource Development

In response to the more favourable economics created by changes to Saskatchewan royalty regulations, particularly the royalty holiday provisions, the Corporation participated in the drilling of 138 working interest development wells and 26 development wells arising from farmout activity. This represents an overall increase in gross drilling activity of 45 percent from 1982.

Development Drilling *(number of wells)*



Heavy Oil

The focus of the drilling program was on the development of the Corporation's major heavy oil pools, typically exhibiting good initial cashflows. Eighty-one wells were drilled in the heavy oil areas resulting in 74 oil wells. Development of the Senlac, Court, Neilburg and Luseland heavy oil fields accounted for 80 percent of the $10.7 million spent on the drilling and completion of heavy oil wells during 1983.

Senlac The 22 (11.4 net) wells drilled in this field brought the total number of producing wells in the field to 65 at year end. Drilling added 130 thousand cubic metres of oil to the Corporation's proven developed reserves and raised Saskoil's share of production from this pool by approximately 50 cubic metres per day. The relatively low viscosity of the oil and high production rates per well make this a very successful development investment under primary recovery. The size of the pool and the characteristics of the reservoir make it a candidate for the application of an enhanced oil recovery scheme. This was being investigated at year end.

Court The Court field, discovered by Saskoil in 1981, remains a very active area for Saskoil. During the year, 23 (18 net) successful oil wells were drilled, adding 200 thousand cubic metres of proven developed reserves and increasing the total producing well count in the field to 35 (27 net). Late in 1983, Saskoil purchased additional land adjoining the pool. Development drilling is expected to continue in 1984.

Neilburg In 1983, Saskoil participated in extending the Neilburg pool to the east by drilling nine (eight net) oil wells resulting in primary reserve additions of 117 thousand cubic metres. Total well count in the pool at year end was 42 oil wells with Saskoil having a working interest in 29 (26.35 net) of the wells. Saskoil's share of production is 70 cubic metres per day.

Luseland Development of the Luseland pool started in 1982 and continued into 1983 with Saskoil drilling seven (2.33 net) oil wells, encountering no dry holes. This brought the total well count in the pool to 30 (nine net) with potential for an additional six to eight wells being drilled in 1984. As a result of the high viscosity of the oil in the pool, each well is expected to produce only eight thousand cubic metres, less than three percent of the oil in the reservoir. The small fraction of the oil being recovered under primary production, suggests that the ultimate recovery of oil from this pool will require some form of enhanced oil recovery.

Light/Medium Oil

Development drilling and completion activities in the light and medium oil areas of Saskatchewan, costing $4.5 million, were directed mainly at the very attractive Viking light oil play in Western Saskatchewan. Westar Petroleum, an equal partner in a joint venture with Saskoil, drilled 30 (15 net) wells in the Plato and Dodsland fields. The 22 wells drilled at Plato were all successful and at year end the field was producing 70 cubic metres per day. Initial results of the eight (four net) wells drilled at Dodsland, just prior to year end, were very encouraging. High initial production rates, averaging eight cubic metres per day per well, combined with the royalty holiday period make this a very attractive investment despite the rapid production decline normally experienced with these wells.

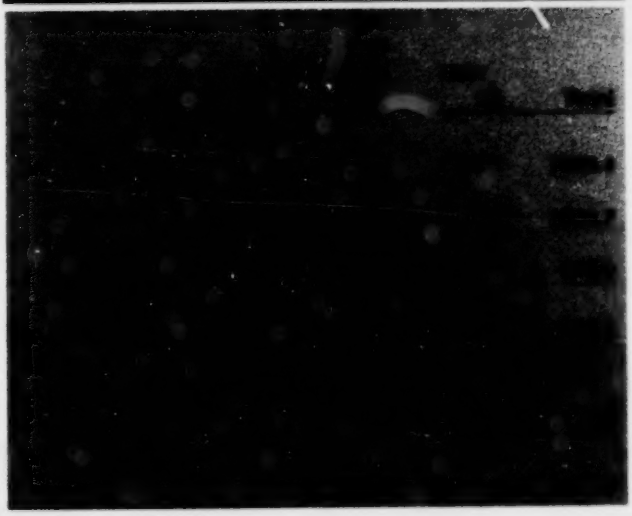
The balance of the light and medium development drilling activities reflected the relatively mature nature of the investment opportunities; small one or two well programs directed at extending the edges of existing pools.

During the year, Saskoil continued to use farmout ventures to accelerate the development of some of its land holdings. Partners in these ventures drilled 26 wells at no cost to the Corporation. Saskoil receives an override royalty on production from these wells.

Reserves

Saskoil undertook a comprehensive review of its oil reserves, contracting an independent engineering firm to evaluate the Corporation's oil reserves as of January 1, 1983. As a result of the study, reserves were revised upwards. The Corporation's oil reserves are concentrated in Saskatchewan (99.5 percent), with the remainder in Manitoba and Alberta.

Total Proven Developed Oil Reserves (10 m³)



Total Proven Developed Gas Reserves (10 m³)

	Saskatchewan	Alberta	Total
Reserves at December 31, 1982	468.8	680.5	1,149.3
Revisions of previous estimates	(377.0)	(41.2)	(418.2)
Extensions, discoveries and other additions	16.5	—	16.5
Gross Reserves	108.3	639.3	747.6
less:			
Production	1.4	2.2	3.6
Reserves at December 31, 1983	106.9	637.1	**744.0**

Lack of available gas contracts resulting from the glut in gas markets of North America, has dictated that the Corporation's gas reserves remain largely unexploited. This oversupply situation is expected to continue for the near future. The reclassification, from proven developed to proven undeveloped, of several cased gas wells more accurately reflects their current status and accounts for the revision of previous estimates.

Development

PRODUCTION OPERATIONS

Markets

Demand for all Saskatchewan crudes was strong throughout the year. Production losses due to market constraints were minimal in 1983, a significant improvement from the marketing problems encountered in 1982.

The improved market performance throughout most of 1983 of the Light Sour Blend stream from southeast Saskatchewan was largely due to the strong demand from eastern Canadian refiners for domestic crude oil. Flow of crude oil to the east was supported by the Federal government's extension of the transportation compensation program. Under this program, refiners are compensated for transportation costs incurred in moving Canadian crude oil by ship from Montreal to Atlantic refineries, thereby displacing imported crude.

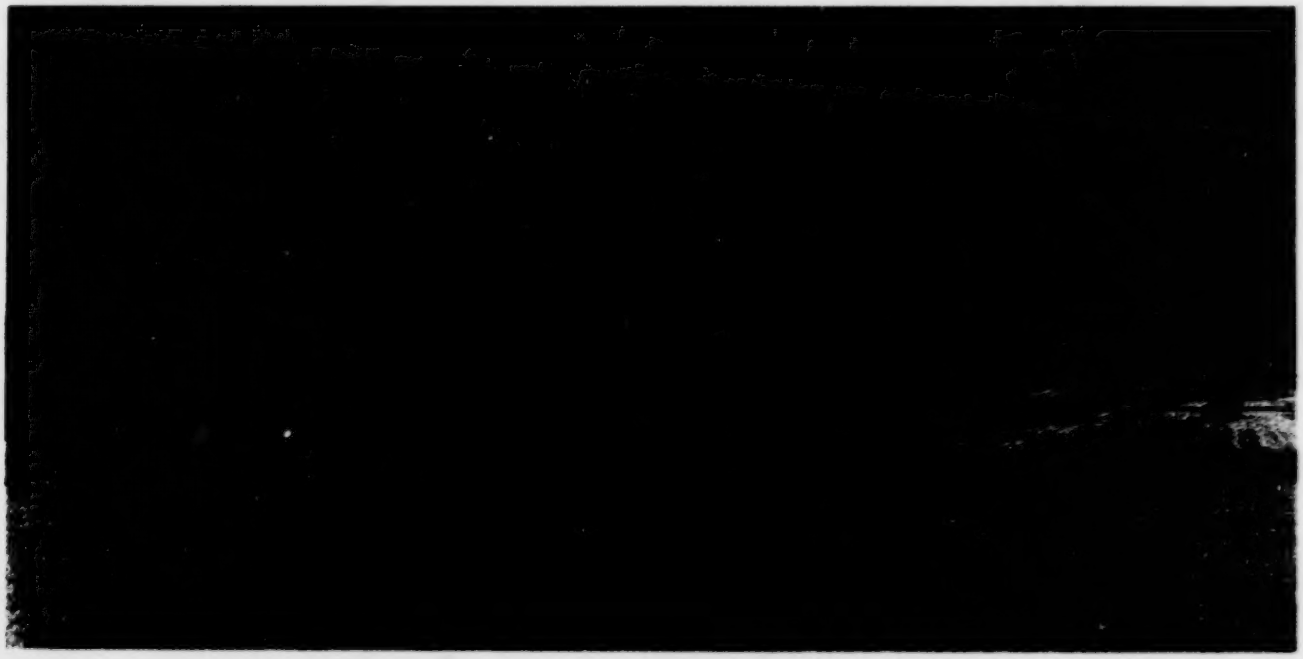
Throughout the first quarter, sales of the Corporation's heavy oil export streams were jeopardized by falling world crude oil prices. During April and May, the export tax for Lloydminster and Smiley-Coleville crude oils was almost eliminated by the Federal government in an effort to keep these crude oils competitively priced on world markets. With the slow recovery of world crude oil prices, export taxes were gradually raised in the last two quarters of 1983, while maintaining the pricing competitiveness of the heavy oils.

Virtually all of the Corporation's heavy oil is exported to midwestern United States' refineries. Introduction of the United States' government's road tax to fund road improvement and road maintenance programs enhanced demand for asphalt-laden Saskatchewan heavy oil. This program will help to maintain a strong market for Saskatchewan heavy oil throughout 1984.

Production

The Corporation's average daily production rate for 1983 was 2050 cubic metres per day, an increase of 18 percent from the 1982 rate. Both light/medium oil and heavy oil production increases contributed to the attainment of this record production level by the Corporation.

Saskoil production at Luseland, Saskatchewan.

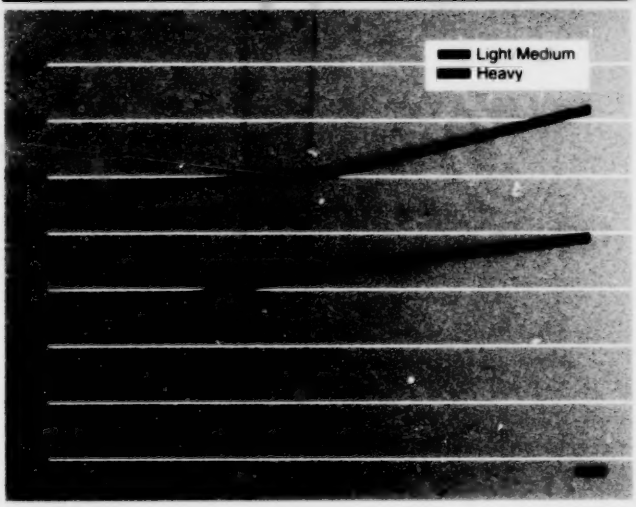


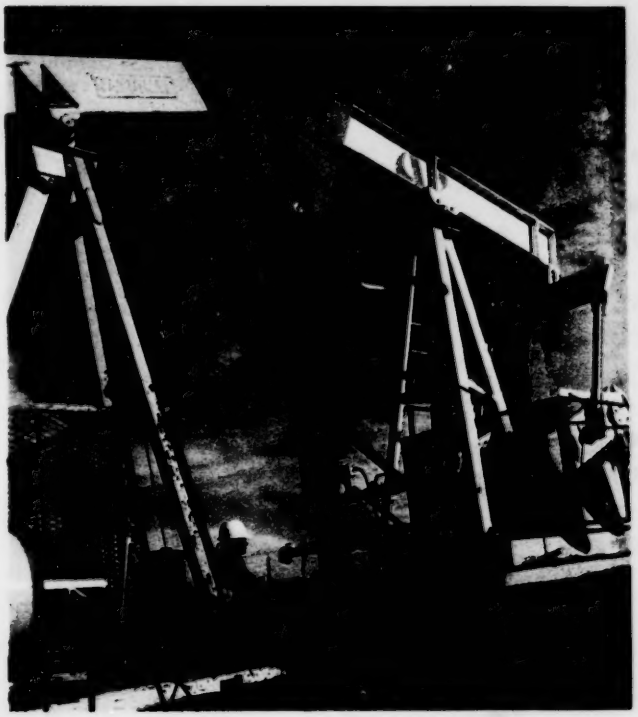
Light/medium oil production during 1983 was 455 thousand cubic metres, compared to 387 thousand cubic metres in 1982. This was due to the improved market conditions which resulted in minimal shut-in production throughout the year.

Heavy oil production rose to 293 thousand cubic metres for 1983, an increase of 46 thousand cubic metres from the 1982 production level. Normal reservoir decline on existing production was more than offset by the new production added by the heavy oil development drilling program. Continued growth in Saskoil's heavy oil production demonstrates the Corporation's success in the development of this large Saskatchewan resource.

The current pricing and royalty regime returns larger net-backs to producers of more recently developed oil. Saskoil's production for 1983 classified in the newer categories (production from wells drilled after March 31, 1974) was 60 percent, compared with an industry average of 40 percent. The royalty regulation changes announced by the Provincial government in August, 1983 further enhanced the Corporation's position by effectively moving the old medium oil (production from wells drilled prior to April 1, 1974) in southwest Saskatchewan into the newer categories for royalty calculation purposes.

Average Oil Production Rates (m³/Day)



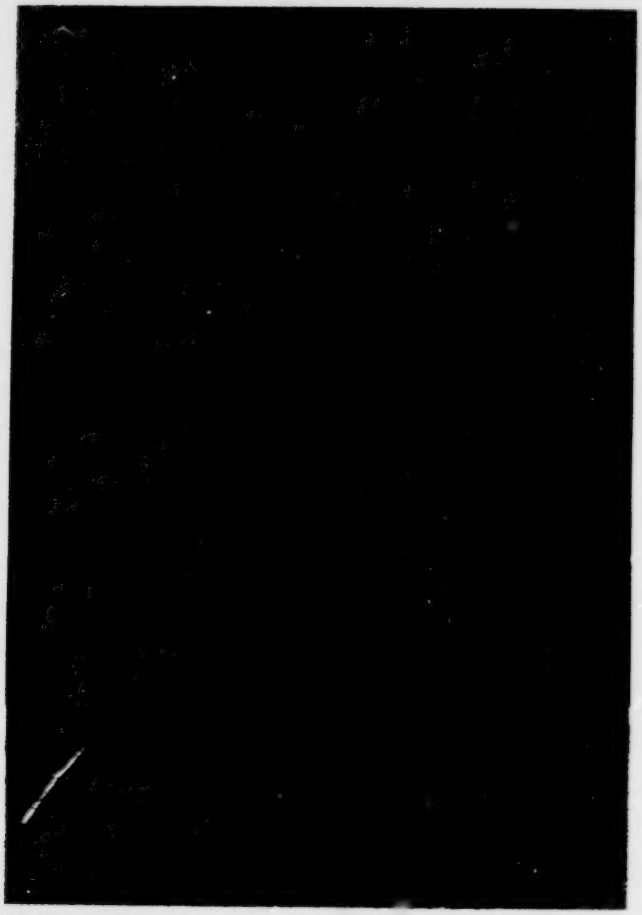


Dual Zone Pumping Unit near Weyburn, Saskatchewan.

RESEARCH AND DEVELOPMENT

1983 was a notable year for Saskoil's Research and Development Division. The management and custody of the Division and its laboratory facilities were transferred from Saskoil to Saskatchewan Energy and Mines (SEM) effective April 1, 1983. The Division was doing research and development work beyond the scope of Saskoil's new, more focussed mandate. In addition, Saskoil's "live within cash flow" objective precluded the Corporation from funding provincial energy research beyond the Corporation's business needs.

Development



HEP Pumping Unit (Hydraulic Electronic Pneumatic Pump) in Marsden Field.

Studies are currently being done by SEM to determine the ultimate structure and management of the Division. It is SEM's intent to create a research and development vehicle which will be accessible to and supported by the petroleum industry in Saskatchewan. Thus, the technology, expertise, and facilities available in the Research and Development laboratory will be available to not only Saskoil, but to all participants in the Saskatchewan petroleum industry.

UPGRADER INVOLVEMENT

Saskoil has played a major role in the upgrading business. The Corporation's activities included a 25 percent interest in the Plains Upgrader Project, preliminary discussions with Consumers' Co-operative Refineries Ltd. of Regina on the concept of switching its feedstock to Saskatchewan crudes and in-house work on several other upgrading concepts.

In early 1983, Saskoil concluded that the Corporation's financial circumstances and the windup of the Plains Upgrader Consortium precluded a continued high level of effort directed toward the upgrading business. Saskoil was not involved in any upgrading projects at year end but will continue to monitor developments and their possible impact on the Corporation's future.

Sasktoil development drilling in Weyburn Pool, 14-24-6-13, W2M, November 2, 1983.

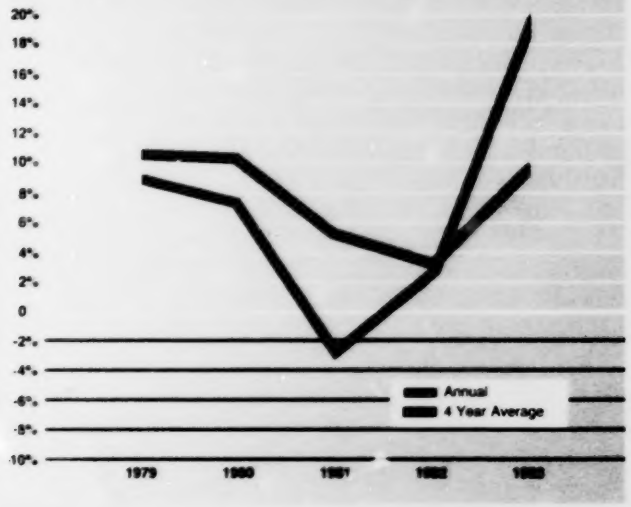
"Saskoil's financial results in 1983 were excellent with record earnings and cashflow. Continued market demand and stable prices will result in further strong financial performance."

H. W. JOHNSON
Vice-President, Finance

Financial Review

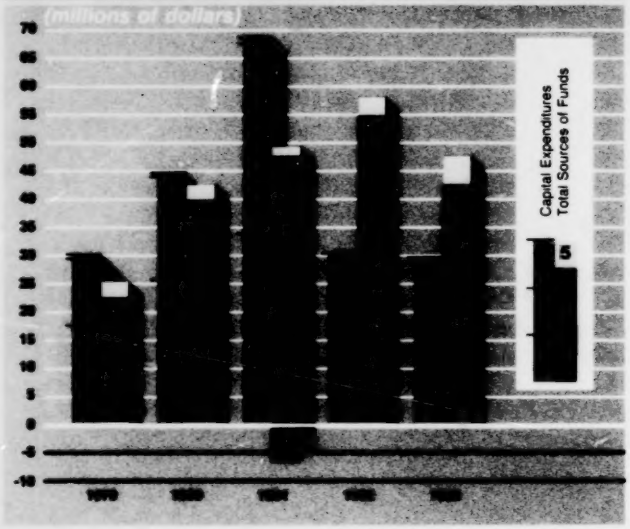
The financial highlights for 1983 were record sales revenue, earnings and return on capital employed. Sales revenue rose 31 percent to $136 million, earnings of $30.9 million represented an increase of $29.3 million from 1982 where unusual costs of $11.3 million were recognized, and the 20 percent return on average capital employed during the year was a significant increase from the 3.1 percent in 1982. This 20 percent return also moves Saskoil toward a financial objective of realizing and maintaining a four year average in the range of 14 percent. The 1983 earnings raised this measure to 9.9 percent from 3.5 percent in 1982.

Return on Average Capital Employed



Gross oil and gas sales of $136 million were $32.1 million higher than in 1982. Of this increase, $19 million related to volume which rose 19 percent and $13.1 million reflected a 12 percent higher average price. Increased demand for

Capital Expenditures and Sources of Funds



Capital Expenditures — 1. Exploration 2. Development 3. Other
Total Sources of Funds — 1. Earnings Before Unusual Items 2. Depletion, Depreciation and Amortization 3. Equity Advances 4. Debt 5. Other

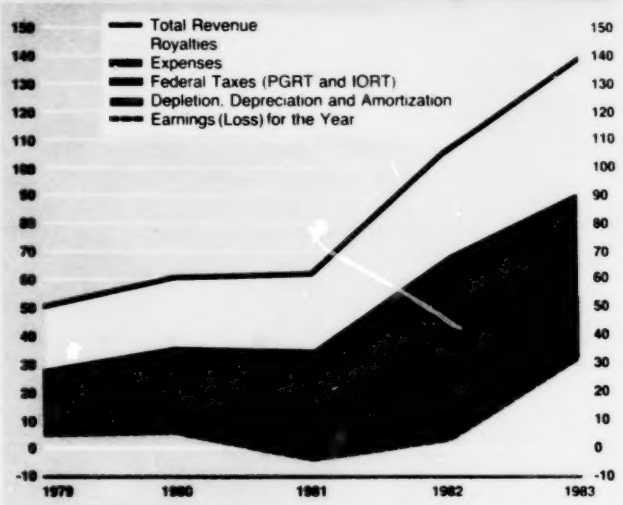
heavy oil in the United States as a result of federal assistance to states for road improvements, as well as timely adjustments to the export tax to keep heavy oil priced competitively in world markets, resulted in an $11.4 million increase in sales of heavy oil. Sales of light and medium oil increased $20.5 million as both markets and prices improved from 1982. Of all the oil sold by Saskoil during the year, 98.7 percent was produced from wells in Saskatchewan.

Royalty payments increased 30 percent to $48.1 million from $37.1 million in 1982, reflecting increased production and prices. The one-year royalty-free period granted to new wells drilled reduced royalty payments by $2.2 million.

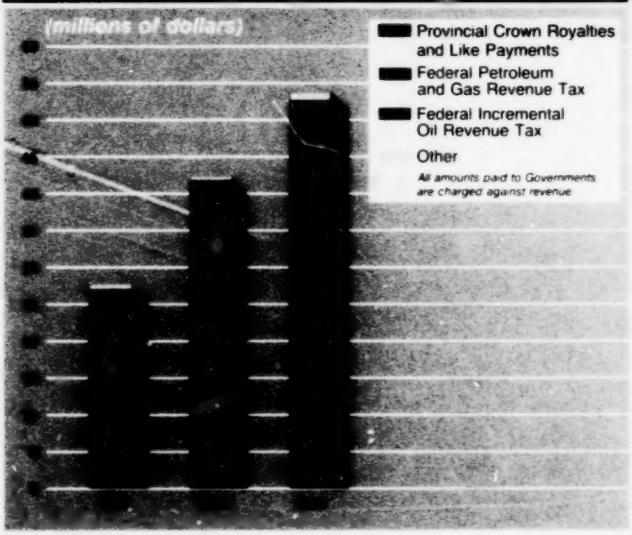
Combined operating and administrative costs increased nine percent to $33.7 million. Operating costs increased 29 percent. Although higher production brought about a large portion of this increase, a significant amount was due to an increase in remedial work on wells which was undertaken as a result of improved economic returns. Administration costs decreased 19 percent as emphasis was placed on improving efficiency and productivity. In addition, Saskoil discontinued involvement in upgrader feasibility studies, and the research and development operations were transferred to the Energy and Mines Department of the Saskatchewan Government.

The Federal Petroleum and Gas Revenue Tax increased 40 percent to $10.2 million, due mainly to increased income subject to tax. The Incremental Oil Revenue Tax was not in effect during the year and resulted in a saving of $1.2 million compared to 1982.

Income and Expense Summary *(millions of dollars)*



Amounts Paid To Governments


(millions of dollars)
Provincial Crown Royalties and Like Payments
Federal Petroleum and Gas Revenue Tax
Federal Incremental Oil Revenue Tax
Other
All amounts paid to Governments are charged against revenue

Funds from operations amounted to $43.9 million, up substantially from the $24.5 million generated in 1982. This was sufficient to totally fund the Corporation's 1983 capital program as well as permit the early retirement of $10 million in debt that carried interest rates averaging 13 percent. This was a significant accomplishment during the first year of operating within internally generated funds, and the year ended with a substantial cash balance. Before declaring a dividend for 1983, the working capital balance was $18.4 million, almost double the $9.9 million at the beginning of the year.

Saskoil has declared a $30 million dividend for 1983. Of this amount, $20 million was paid to the Crown Investments Corporation of Saskatchewan in 1984 in exchange for an equal amount being provided to Saskoil as an equity advance. This will enable Saskoil to maintain its 1984 capital programs as planned.

SASKATCHEWAN OIL AND GAS CORPORATION

Consolidated Statement of Financial Position As at December 31, 1983

	1983	1982
	(thousands of dollars)	
Assets		
Current Assets		
Cash, including short-term deposits	$ 16,580	$ 7,907
Accounts receivable	17,649	21,006
Materials, supplies and prepaid expenses	2,989	3,889
	37,218	32,802
Property and Equipment, at cost less accumulated depletion, depreciation and amortization (note 3)	177,605	165,234
Unamortized Discount on Long-term Debt	60	93
	$214,883	$198,129

Approved on Behalf of the Board:

Herb C. Pinder Jr.
Director

P. W. Pitka

Patrick W. Pitka
Director

Auditors' Report

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have examined the consolidated statement of financial position of Saskatchewan Oil and Gas Corporation as at December 31, 1983 and the consolidated statements of earnings, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

	1983	1982
	(thousands of dollars)	
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 16,138	$ 19,111
Grants payable in lieu of taxes (note 4)	2,639	2,273
Dividend payable (notes 5 and 6)	10,000	1,568
	28,777	22,952
Dividend Payable (notes 5 and 6)	20,000	
Long-term Debt (note 7)	25,000	35,000
	73,777	57,952
Equity, Province of Saskatchewan		
Equity Advances (note 8)	125,500	125,500
Retained Earnings	15,606	14,677
	141,106	140,177
	$214,883	$198,129

The accompanying Notes are an integral part of this Statement

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1983 and the results of its operations and the changes it its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon
Chartered Accountants

Regina, Canada
March 27, 1984

SASKATCHEWAN OIL AND GAS CORPORATION

Consolidated Statement of Earnings For the Year Ending December 31, 1983

	1983	1982
	(thousands of dollars)	
Revenue		
Crude oil and natural gas sales	$136,047	$103,968
Less: Royalties	48,142	37,180
	87,905	66,788
Interest and other income	3,247	1,813
Net operating revenue	91,152	68,601
Expenses		
Operating and administrative costs	33,725	31,022
Depletion, depreciation and amortization	12,974	11,639
Grants in lieu of taxes (note 4)		
Petroleum and Gas Revenue Tax	10,222	7,308
Incremental Oil Revenue Tax	—	1,228
Interest (note 9)	3,302	4,548
Total expenses	60,223	55,745
Earnings From Operations, Before Unusual Items	30,929	12,856
Less: Unusual Items (note 10)	—	11,288
Earnings for the Year	**$ 30,929**	$ 1,568

The accompanying Notes are an integral part of this Statement

Consolidated Statement of Retained Earnings For the Year Ending December 31, 1983

	1983	1982
	(thousands of dollars)	
Retained Earnings, Beginning of Year	$ 14,677	$ 14,677
Earnings for the Year	30,929	1,568
Dividend (notes 5 and 6)	(30,000)	(1,568)
Retained Earnings, End of Year	**$ 15,606**	$ 14,677

The accompanying Notes are an integral part of this Statement

SASKATCHEWAN OIL AND GAS CORPORATION

Consolidated Statement of Changes in Financial Position For the Year Ending December 31, 1983

saskoil

	1983	1982
	(thousands of dollars)	
Funds Were Provided From:		
Operations		
Earnings from operations	$ 30,929	$12,850
Add: Depletion, depreciation and amortization	13,007	11,672
Funds from operations	43,936	24,528
Proceeds From Disposal of Assets	1,155	462
Government Incentives (note 11)	3,580	3,629
Equity Advances	—	31,000
	48,671	59,619
Funds Were Used For:		
Acquisition of Property and Equipment	30,080	31,031
Repayment of Long-Term Debt	10,000	—
Dividend (notes 5 and 6)	10,000	1,568
	50,080	32,599
Increase (Decrease) in Working Capital	**$ (1,409)**	$27,020
Increase (Decrease) in Working Capital Components:		
Cash, including short-term deposits	$ 8,673	$ 3,015
Other current assets	(4,257)	7,422
Dividend payable (notes 5 and 6)	(8,432)	(1,568)
Other current liabilities	2,607	18,151
Total Increase (Decrease) in Working Capital	**$ (1,409)**	$27,020

The accompanying Notes are an integral part of this Statement

1. Summary of Significant Accounting Policies

The Consolidated Financial Statements of Saskatchewan Oil and Gas Corporation ("the Corporation") have been prepared by management in accordance with accounting principles generally accepted in Canada. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of numerous estimates and approximations. The Corporation's more significant accounting policies are summarized below.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Saskatchewan Oil and Gas Corporation and its wholly-owned subsidiary, Saskoil Resources Inc.

Substantially all of the Corporation's exploration and production activities are conducted jointly with others. These Consolidated Financial Statements reflect only the Corporation's proportionate interest in such activities.

Full Cost Method of Accounting

The Corporation follows the full cost method of accounting for its oil and gas operations whereby all costs related to the exploration for and the development of oil and gas reserves, whether productive or nonproductive, are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling both productive and nonproductive wells, and overhead expenditures related to exploration activities.

Proceeds from minor property and equipment sales are applied against the net book value of property and equipment without recognizing any gain or loss on disposition. Gains or losses on major property and equipment sales are recognized in the statement of earnings.

Enhanced Oil Recovery

Laboratory and field tests of enhanced oil recovery processes preliminary to the establishment of potentially economic projects are expensed as incurred. Expenditures on potentially economic projects are capitalized pending determination of commercial viability. Costs of viable projects are charged to the full cost pool. Costs of unviable projects are expensed.

Depletion, Depreciation and Amortization

Costs capitalized under the full cost method of accounting are depleted using the unit-of-production method based on estimated recoverable proven developed reserves of oil and gas as determined by Corporate engineers with assistance by an independent consultant as required.

Depreciation of wellhead equipment, field equipment and buildings, tanks and flowlines is calculated using the unit-of-production method as described above. Depreciation and amortization of other property and equipment is calculated at rates which will charge original costs to operations over the estimated useful lives of the respective assets using the straight-line method. Leasehold improvements are amortized over the remaining terms of leases in effect.

Inventory of Materials and Supplies

Materials and supplies are generally valued at the lower of weighted average cost and replacement value.

2. Status of Corporation

The Corporation was established in accordance with the Saskatchewan Oil and Gas Corporation Act, Chapter S-32, Revised Statutes of Saskatchewan, 1978. The accounts of the Corporation are consolidated in the annual financial statements of the Crown Investments Corporation of Saskatchewan.

3. Property and Equipment

	1983			1982
	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value	Net Book Value
	(thousands of dollars)			
Petroleum and natural gas leases and rights together with exploration and development thereon	$184,198	$57,904	$126,294	$119,714
Production equipment	60,207	16,724	43,483	37,634
Other equipment	11,236	3,408	7,828	7,886
	$255,641	**$78,036**	**$177,605**	$165,234

4. Grants in Lieu of Taxes

Under the terms of the Canada/Saskatchewan Energy Pricing and Taxation Agreements, the Corporation pays equivalent grants in lieu of the Petroleum and Gas Revenue Tax and Incremental Oil Revenue Tax.

5. Dividend

In 1983, the Company declared a dividend of $30 million payable to the Crown Investments Corporation of Saskatchewan.

6. Subsequent Event

On March 19, 1984, the Corporation paid $20 million of the dividend described in Note 5 and concurrently a $20 million equity advance was received from the Crown Investments Corporation of Saskatchewan.

7. Long-term Debt

	Maturity	1983	1982
			(thousands of dollars)
Province of Saskatchewan			
8.5%	Nov. 1, 1985	$25,000	$25,000
Crown Investments Corporation of Saskatchewan			
12.75%	Mar. 1, 1985	—	5,000
13.25%	Dec. 9, 1985	—	5,000
		$25,000	$35,000

8. Equity Advances

As a Crown corporation, the Corporation does not have share capital. Instead, the Corporation has received advances which are recorded as equity. At year end, these advances were as follows:

	1983	1982
		(thousands of dollars)
Crown Investments Corporation of Saskatchewan	$ 34,000	$ 34,000
Saskatchewan Heritage Fund	91,500	91,500
	$125,500	$125,500

9. Interest Expense

	1983	1982
		(thousands of dollars)
Interest on long-term debt	$3,166	$3,458
Other interest	136	1,090
	$3,302	$4,548

10. Unusual Items

In accordance with the Corporation's accounting practices, the initial costs of certain projects were capitalized pending evaluations for commercial development. In 1982 such costs in the amount of $11,288,000 (net of depletion and depreciation totalling $1,018,000) relating to enhanced oil recovery and upgrading of heavy oil were charged against earnings.

11. Government Incentive Programs

During the year the Corporation earned $136,000 ($203,000 in 1982) in grants from the Province of Alberta relating to exploration activities in that province. These amounts are accounted for as a reduction of capital expenditures.

The Government of Canada has provided that, commencing in 1981, companies with stipulated Canadian ownership will receive Petroleum Incentives Program grants based on approved expenditures on petroleum and natural gas exploration and development. The Corporation qualifies for the grants under the ownership regulations but is ineligible because it is exempt from tax under the Income Tax Act.

The Corporation receives incentive grants under the Province of Saskatchewan's Oil and Gas Regulations 1978. In 1983 the Corporation earned grants of $3,444,000 ($3,426,000 in 1982). The grants are based on certain approved expenditures and are paid at a rate per barrel of production. When earned, these amounts are included in the Consolidated Financial Statements as a reduction of property and equipment. At the end of 1982, the Corporation had accumulated $25.3 million in approved expenditures under the program. In 1983 the regulations were changed terminating further approved expenditures effective with 1983 and ending the grants on past expenditures in 1985. The Corporation estimates that although it had accumulated $25.3 million at the end of 1982, it will not earn $15.7 million of this because the grant payments end in 1985.

12. Commitments

Minimum lease payments for the next five years under operating leases for office space and equipment are as follows:

1984	$2,343,000
1985	2,063,000
1986	1,724,000
1987	705,000
1988	151,000
	$6,986,000

13. Employee Pension Plan

Under the Corporation's pension plan arrangements, employee contributions are matched by the Corporation and these amounts are contributed to money-purchase pension plans. As a result, there are no unfunded pension plan liabilities and no outstanding Corporate obligations.

14. Related Party Transactions

The Consolidated Financial Statements include capital, income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the Consolidated Statement of Financial Position and are settled on normal trade terms.

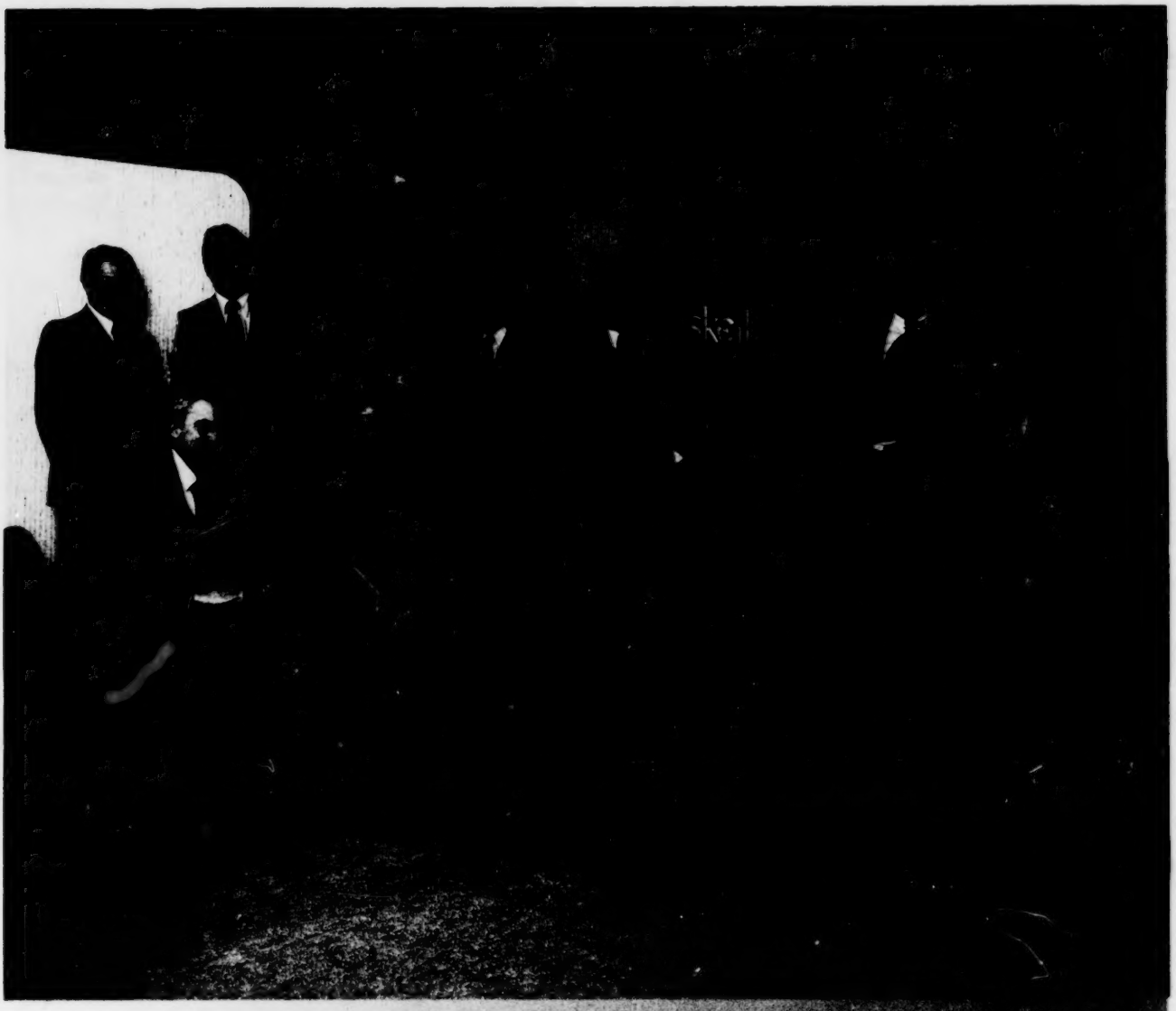
Other amounts due to related party transactions and the terms of settlements are described separately in the Consolidated Financial Statements and the notes thereto.

Five Year Summary

Financial (000's)	**1983**	1982	1981	1980	1979
Gross oil and gas sales	$136,047	$103,968	$ 60,014	$ 59,888	$ 49,962
Other revenue	3,247	1,813	729	688	462
Total revenue	139,294	105,781	60,743	60,576	50,424
Royalties	48,142	37,180	26,210	26,013	21,747
Operating and administrative costs	33,725	31,022	20,461	15,218	12,437
Interest	3,302	4,548	3,481	3,094	2,614
Depletion, depreciation and amortization	12,974	11,639	13,111	11,876	9,638
Unusual items	—	11,288	—	—	—
Grants in lieu of taxes	10,222	8,536	3,686	—	—
Total expenses	108,365	104,213	66,949	56,201	46,436
Earnings (loss) for the year	**$ 30,929**	$ 1,568	$ (6,206)	$ 4,375	$ 3,988
Funds provided from operations	$ 43,936	$ 24,528	$ 6,938	$ 16,251	$ 13,626
Proceeds from disposal of assets	1,155	462	276	—	—
Government incentives	3,580	3,629	2,671	3,493	3,252
Equity advances	—	31,000	40,500	20,000	5,000
Long-term debt	—	—	—	5,000	5,000
Total sources of funds	48,671	59,619	50,385	44,744	26,878
Capital expenditures	30,080	31,031	69,792	45,468	30,928
Dividend declared	30,000	1,568	—	—	—
Less non-current portion	(20,000)	—	—	—	—
Repayment of long-term debt	10,000	—	—	—	—
Total uses of funds	50,080	32,599	69,792	45,468	30,928
Increase (decrease) in working capital	(1,409)	27,020	(19,407)	(724)	(4,050)
Working capital (deficiency), beginning of year	9,850	(17,170)	$ 2,237	$ 2,961	$ 7,011
Working capital (deficiency), end of year	**$ 8,441**	$ 9,850	$ (17,170)	$ 2,237	$ 2,961
At end of year					
Total assets	$214,883	$198,129	$183,712	$137,423	$92,559
Long-term debt	25,000	35,000	35,000	35,000	30,000
Capital contributed	125,500	125,500	94,500	54,000	34,000
Retained earnings	15,606	14,677	14,677	20,883	16,508
Financial Ratios					
Royalties as % of sales	35.4%	37.3%	43.7%	43.4%	43.5%
Working capital ratio	1.3:1	1.4:1	0.6:1	1.1:1	1.3:1
Return on average capital employed	20.0%	3.1%	—	7.6%	9.0%

Operations	1983	1982	1981	1980	1979
Production (gross before royalties) — 000m³					
Light/Medium oil	455	387	355	552	595
Heavy oil	293	247	182	101	59
Total oil	748	634	537	653	654
Gas (10^6 m³)	10	4	11	6	5
Proven Developed Reserves (gross before royalites) — 000m³					
Light/Medium oil	7,320	6,335	4,407	3,866	4,316
Heavy oil	1,847	1,335	1,301	1,148	630
Total oil	9,167	7,670	5,708	5,014	4,946
Gas (10^6 m³)	744	1,149	1,219	877	632
Changes in Proven Developed Oil Reserves — 000m³					
Reserves, beginning of year	7,670	5,708	5,014	4,946	4,601
Additions by development	676	331	1,231	721	999
Revisions of previous estimates	1,569	2,265	—	—	—
Production	(748)	(634)	(537)	(653)	(654)
Reserves, end of year	9,167	7,670	5,708	5,014	4,946
Drilling (gross wells)	253	160	268	302	199
Number of employees, end of year	247	315	285	180	121
Average oil price ($/m³)	182.77	163.19	108.71	89.72	76.43

Board of Directors



Pictured from Left to Right: Mr. Patrick Pitka, Mr. [illegible], Mrs. Eleanore Klein, Mr. James Wood, Mr. Donald MacNaughton, Mr. John [illegible], Mr. [illegible] Schoenhals — *Vice-Chairman of the Board*, Mr. [illegible] — [illegible], Mr. Peter Whitmore — *Secretary to the Board* (not pictured).

Audit Committee

Mr. Patrick Pitka — *Chairman*
Mr. James Wood
Mrs. Eleanore Klein

Compensation Committee

Mr. [illegible]
Mr. [illegible]
Mr. [illegible]

POOR

QUALITY

ORIGINAL